



## China Supporting Global Growth

The path of the business cycle follows a regular pattern. However, the timing, extent, and duration of each cycle can vary widely.

Last month we wrote about policy responses to headwinds in global growth. More specifically, China reversed monetary policy from tightening to easing, and European finance ministers along with the European Commission and the IMF completed a rescue fund to provide financing to European countries in need.

Despite weakness in U.S. housing and employment data, **equity markets rebounded in the first half of July** as progress was made in solving the gulf oil spill, a financial regulation reform bill was passed, Goldman Sachs settled their issues with the S.E.C., and Intel reported their strongest quarterly earnings in 40 years.

We **continue to see evidence of economic expansion** in global economies, mostly led by the growth in China.

**China has passed the U.S. to become the world's biggest energy consumer.** According to new data from the Paris-based International Energy Agency, China devoured 2,252 million tons of oil equivalent last year, or about 4% more than the U.S. The oil-equivalent metric represents all forms of energy consumed, including crude oil, nuclear power, coal, natural gas and renewable sources such as hydropower.

**Strong demand in Asia for commodities** like iron ore, tin and gold, combined with policies in several countries that help control deficits and keep inflation low, are **fueling growth in Latin America.** The World Bank forecasts that the region's economy will grow 4.5 percent this year. **Brazil**, the region's rising power, is **leading the regional recovery** from the downturn of 2009, growing 9 percent in the first quarter from the same period last year. Brazil's central bank said Wednesday that growth for 2010 could reach 7.3 percent, the nation's fastest expansion in 24 years.

**China surpassed the United States last year as Brazil's top trading partner.**

**Australia's economic recovery continues on track** based upon demand for energy and commodities from China. Australia's 2012-13 budget surplus is now expected to triple to \$3.1 billion from the \$1 billion projected in the May, largely due to a mining boom. Australia's commodity export earnings are expected to rise 23 per cent.

**China's lumber purchases** have increased 40% over the past 4 years. This year, **Canada has surpassed Russia** as China's largest supplier.

We continue to expect the U.S. recovery to proceed despite bumps along the way. The **odds of a double dip recession in the U.S. remain low.** Prior double dips were caused by prematurely raising interest rates, which we do not expect from the Federal Reserve this time.

Additionally, according to a recent survey by the National Association of Business Economics, **more U.S. companies plan to hire and buy new equipment during the next six to 12 months.**

An **expanding economy**, supported by **low interest rates**, with **low inflation** and **improving corporate profits** all provide a **favorable environment for stocks.**

**ASSET MIX:** We **continue to maintain the maximum allocation to equities.** We are watching for indications of short-term rate hikes by the Federal Reserve, at which time we expect to underweight bonds. We are also watching for signs of a stalling recovery, and expect to reduce the allocation to equities if such signs appear.

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